Kopanong Local Municipality
Annual Financial Statements
for the year ended June 30, 2017

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municpal services as set in the Constitution
Municipal Demacation code	FS 162
Grading of local authority	3
Council committee	
Mayor	Matwa TX
	Speaker
	Dlomo LK
	Chief Whip
	Jan NM
Councillors	Basholo PD
	Moitse J
	Smith B
	Phafudi TA
	Sola SA
	Shebe H
	May ME
	Rasoeu LG
	Makoa L
	Moeketsi MJ
	Phoba MJ
	Mjika ME
Accounting Officer	MM Kubeka
Chief Finance Officer (CFO)	MP Koatla
Registered office	20 Louw Street Trompsburg 9913
Postal address	Private Bag X23 Trompsburg 9913
Bankers	First National Bank
Auditors	Auditor General of South Africa Supreme Audit Institution of South Africa
Attorneys	Mohlokonya attorneys Maduba Attorneys

General Information

Relevant Legislation	Basic Condition of Employment Act(Act no.75 of 1997)
	Division of Revenue Act
	Electricity Act(Act no. 41 of 1998)
	Employment Equity Act(Act no.55 of 1998)
	Housing Act(Act no.107 of 1997)
	Income tax Act (Act no. 58 of 1962)
	Municipal Finance Management Act(Act No 56 of 2003)
	Municipal Planning and Performance Management Regulation
	Municipal Property Rates Act(Act no.6 of of 2004)
	Municipal Structure Act(Act no.117 of 1998)
	Skill Development Levies Act(Act no.9 of 1999)
	South Africa Local Bargaining Council Regulations
	Supply Chain Management Regulation of 2005
	Unemployment Insurance Act(Act no.89 of 1991)
	Value Added Tax Act(Act no,89 of 1991)
	Water Service Act(Act no.108 of 1997)

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The annual financial statements set out on page s 5 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
MM Kubeka

31 August 2017

Statement of Financial Position as at June 30, 2017

	Note(s)	2017 R	2016 R
Assets			
Current Assets			
Inventories	4	93,252	79,858
Other Receivables from exchange transactions	5	4,182,564	3,695,113
Receivables from non-exchange transactions	6	2,875,316	6,328,359
VAT receivable	7	17,735,380	11,545,485
Receivables from exchange transactions	8	27,041,515	16,258,522
Cash and cash equivalents	9	2,062,104	912,567
		53,990,131	**38,819,904**
Non-Current Assets			
Property, plant and equipment	2	930,049,151	942,929,729
Non-Current Assets		930,049,151	942,929,729
Current Assets		53,990,131	38,819,904
Total Assets		**984,039,282**	**981,749,633**
Liabilities			
Current Liabilities			
Long-term liabilities	11	179,928	179,928
Payables from exchange transactions	13	303,450,889	238,507,890
Consumer deposits	14	3,129,473	3,102,602
Unspent conditional grants and receipts	10	17,179,467	5,863,209
Provisions	12	481,797	505,208
		324,421,554	**248,158,837**
Non-Current Liabilities			
Long-term liabilities	11	1,089,431	1,269,359
Employee benefit obligation	3	6,716,000	7,055,000
Provisions	12	16,359,009	15,523,535
		24,164,440	**23,847,894**
Non-Current Liabilities		24,164,440	23,847,894
Current Liabilities		324,421,554	248,158,837
Total Liabilities		**348,585,994**	**272,006,731**
Assets		984,039,282	981,749,633
Liabilities		(348,585,994)	(272,006,731)
Net Assets		**635,453,288**	**709,742,902**
Accumulated surplus		639,563,143	707,113,230

Statement of Financial Performance

	Note(s)	2017 R	2016 R
Revenue			
Revenue from exchange transactions			
Sale of goods		374,024	669,882
Service charges	16	105,424,079	108,396,630
Rental of facilities and equipment		364,459	968,848
Fees earned		3,966	3,785
Rental income		805,413	136,704
Sundry income		4,362,280	3,377,277
Interest received	18	12,990,602	9,636,481
Actuarial gains		92,855	8,201,717
Total revenue from exchange transactions		**124,417,678**	**131,391,324**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	16,134,160	13,952,421
Transfer revenue			
Government grants & subsidies	20	105,365,742	115,329,459
Fines, Penalties and Forfeits		34,048	124,534
Total revenue from non-exchange transactions		**121,533,950**	**129,406,414**
		124,417,678	131,391,324
		121,533,950	129,406,414
Total revenue	15	**245,951,628**	**260,797,738**
Expenditure			
Employee related costs	21	(102,740,741)	(96,717,959)
Remuneration of councillors	22	(3,527,609)	(3,854,539)
Administration	23	(2,200,654)	(2,122,552)
Depreciation and amortisation	24	(42,559,762)	(54,847,872)
Finance costs	25	(324,857)	(162,922)
Lease rentals on operating lease		(2,000,078)	(1,835,292)
Debt Impairment	26	(41,619,834)	(61,581,833)
Interest paid		(22,827,103)	(18,958,057)
Repairs and maintenance		(3,000,498)	(2,733,065)
Bulk purchases	27	(86,352,749)	(78,512,656)
Contracted services	28	-	(648,566)
General Expenses	29	(21,389,885)	(20,007,238)
Total expenditure		**(328,543,770)**	**(341,982,551)**
		-	-
Total revenue		245,951,628	260,797,738
Total expenditure		(328,543,770)	(341,982,551)
Operating surplus/deficit		-	-
Deficit before taxation		(82,592,142)	(81,184,813)
Taxation		-	-
Deficit for the year		**(82,592,142)**	**(81,184,813)**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at July 1, 2015	**788,298,043**	**788,298,043**
Changes in net assets		
Deficit for the year	(81,184,813)	(81,184,813)
Total changes	(81,184,813)	(81,184,813)
Opening balance as previously reported	718,786,063	718,786,063
Adjustments		
Prior year adjustments	3,369,222	3,369,222
Balance at July 1, 2016 as restated*	**722,155,285**	**722,155,285**
Changes in net assets		
Deficit for the year	(82,592,142)	(82,592,142)
Total changes	(82,592,142)	(82,592,142)
Balance at June 30, 2017	**639,563,143**	**639,563,143**

Note(s)

Kopanong Local Municipality
Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

	Note(s)	2017 R	2016 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		180,421,153	67,039,565
Grants		115,568,824	91,695,779
Interest income		12,990,602	9,636,481
		308,980,579	168,371,825
Payments			
Employee costs		(106,226,626)	(99,880,498)
Suppliers		(167,414,925)	(45,466,360)
Finance costs		-	(162,922)
		(273,641,551)	(145,509,780)
Total receipts		308,980,579	168,371,825
Total payments		(273,641,551)	(145,509,780)
Net cash flows from operating activities	31	**35,339,028**	**22,862,045**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(34,009,563)	(26,369,067)
Proceeds from sale		-	1,499,689
Net cash flows from investing activities		**(34,009,563)**	**(24,869,378)**
Cash flows from financing activities			
Repayment of long-term liabilities		(179,928)	(179,930)
Net cash flows from financing activities		**(179,928)**	**(179,930)**
Net increase/(decrease) in cash and cash equivalents		**1,149,537**	**(2,187,263)**
Cash and cash equivalents at the beginning of the year		912,567	3,099,828
Cash and cash equivalents at the end of the year	9	**2,062,104**	**912,565**

Kopanong Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	710,636	-	**710,636**	374,024	**(336,612)**	
Service charges	113,455,178	-	**113,455,178**	105,424,079	**(8,031,099)**	45
Rental of facilities and equipment	1,051,000	-	**1,051,000**	364,459	**(686,541)**	45
Fees earned	7,000	-	**7,000**	3,966	**(3,034)**	
Rental income	170,000	-	**170,000**	805,413	**635,413**	45
Sundry Income	1,530,672	-	**1,530,672**	4,362,280	**2,831,608**	45
Interest received - investment	12,144,956	-	**12,144,956**	12,990,602	**845,646**	45
Total revenue from exchange transactions	**129,069,442**	**-**	**129,069,442**	**124,324,823**	**(4,744,619)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16,854,787	-	**16,854,787**	16,134,160	**(720,627)**	45
Transfer revenue						
Government grants & subsidies	73,430,001	-	**73,430,001**	105,365,742	**31,935,741**	45
Fines, Penalties and Forfeits	60,000	-	**60,000**	34,048	**(25,952)**	
Total revenue from non-exchange transactions	**90,344,788**	**-**	**90,344,788**	**121,533,950**	**31,189,162**	
Expenditure						
Personnel	(99,642,941)	-	**(99,642,941)**	(102,740,741)	**(3,097,800)**	45
Remuneration of councillors	(4,376,406)	-	**(4,376,406)**	(3,527,609)	**848,797**	
Administration	(2,122,552)	-	**(2,122,552)**	(2,200,654)	**(78,102)**	
Depreciation and amortisation	(72,592,974)	-	**(72,592,974)**	(42,559,762)	**30,033,212**	45
Finance costs	(228,613)	-	**(228,613)**	(324,857)	**(96,244)**	45
Lease rentals on operating lease	(1,495,387)	-	**(1,495,387)**	(2,000,078)	**(504,691)**	
Bad debts written off	(15,126,851)	-	**(15,126,851)**	(41,619,834)	**(26,492,983)**	45
Interest paid	(10,600,000)	-	**(10,600,000)**	(22,827,103)	**(12,227,103)**	
Repairs and maintenance	(8,547,777)	-	**(8,547,777)**	(3,000,498)	**5,547,279**	45
Bulk purchases	(71,735,552)	-	**(71,735,552)**	(86,352,749)	**(14,617,197)**	45
General Expenses	(19,766,544)	-	**(19,766,544)**	(21,389,885)	**(1,623,341)**	45
Total expenditure	**(306,235,597)**	**-**	**(306,235,597)**	**(328,543,770)**	**(22,308,173)**	
Actuarial gains/losses	-	-	**-**	92,855	**92,855**	
Deficit before taxation	(86,821,367)	-	**(86,821,367)**	(82,592,142)	**4,229,225**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(86,821,367)**	**-**	**(86,821,367)**	**(82,592,142)**	**4,229,225**	

Unaudited Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2017											
Financial Performance											
Property rates	16,854,787	(16,854,787)	-	-		-	16,134,160		16,134,160	DIV/0 %	96 %
Service charges	113,455,178	(113,455,178)	-	-		-	105,424,079		105,424,079	DIV/0 %	93 %
Investment revenue	12,144,956	(12,144,956)	-	-		-	12,990,602		12,990,602	DIV/0 %	107 %
Transfers recognised - operational	70,650,001	(70,650,001)	-	-		-	69,821,362		69,821,362	DIV/0 %	99 %
Other own revenue	3,529,308	(3,529,308)	-	-		-	6,037,045		6,037,045	DIV/0 %	171 %
Total revenue (excluding capital transfers and contributions)	**216,634,230**	**(216,634,230)**	**-**	**-**		**-**	**210,407,248**		**210,407,248**	**DIV/0 %**	**97 %**
Employee costs	(99,642,941)	99,642,941	-	-	-	-	(102,740,741)	-	(102,740,741)	DIV/0 %	103 %
Remuneration of councillors	(4,376,406)	4,376,406	-	-	-	-	(3,527,609)	-	(3,527,609)	DIV/0 %	81 %
Debt impairment	(15,126,851)	15,126,851	-			-	(41,619,834)	-	(41,619,834)	DIV/0 %	275 %
Depreciation and asset impairment	(72,592,974)	72,592,974	-			-	(42,559,762)	-	(42,559,762)	DIV/0 %	59 %
Finance charges	(228,613)	228,613	-	-	-	-	(324,857)	-	(324,857)	DIV/0 %	142 %
Materials and bulk purchases	(71,735,552)	71,735,552	-	-	-	-	(86,352,749)	-	(86,352,749)	DIV/0 %	120 %
Other expenditure	(42,532,260)	42,532,260	-	-	-	-	(51,418,218)	-	(51,418,218)	DIV/0 %	121 %
Total expenditure	**(306,235,597)**	**306,235,597**	**-**	**-**	**-**	**-**	**(328,543,770)**	**-**	**(328,543,770)**	**DIV/0 %**	**107 %**
Total revenue (excluding capital transfers and contributions)	216,634,230	(216,634,230)	-	-	-	-	210,407,248	-	210,407,248	DIV/0 %	97 %
Total expenditure	(306,235,597)	306,235,597	-	-	-	-	(328,543,770)	-	(328,543,770)	DIV/0 %	107 %
Surplus/(Deficit)	**(89,601,367)**	**89,601,367**	**-**	**-**		**-**	**(118,136,522)**		**(118,136,522)**	**DIV/0 %**	**132 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	2,780,000	(2,780,000)	-	-		-	35,544,380		35,544,380	DIV/0 %	1,279 %
Surplus/(Deficit)	(89,601,367)	89,601,367	-	-	-	-	(118,136,522)	-	(118,136,522)	DIV/0 %	132 %
Capital transfers and contributions	2,780,000	(2,780,000)	-	-	-	-	35,544,380	-	35,544,380	DIV/0 %	1,279 %
Surplus (Deficit) after capital transfers and contributions	**(86,821,367)**	**86,821,367**	**-**	**-**		**-**	**(82,592,142)**		**(82,592,142)**	**DIV/0 %**	**95 %**
Surplus (Deficit) after capital transfers and contributions	(86,821,367)	86,821,367	-	-	-	-	(82,592,142)	-	(82,592,142)	DIV/0 %	95 %
Surplus/(Deficit) for the year	**(86,821,367)**	**86,821,367**	**-**	**-**		**-**	**(82,592,142)**		**(82,592,142)**	**DIV/0 %**	**95 %**

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	46,541,000		46,541,000	DIV/0 %	DIV/0 %

Unaudited Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
	R	R	R	R
2016				
Financial Performance				
Property rates				13,952,421
Service charges				108,396,630
Investment revenue				9,636,481
Transfers recognised - operational				78,370,000
Other own revenue				13,482,747
Total revenue (excluding capital transfers and contributions)				**223,838,279**
Employee costs	-	-	-	(96,717,959)
Remuneration of councillors	-	-	-	(3,854,539)
Debt impairment	-	-	-	(61,581,833)
Depreciation and asset impairment	-	-	-	(54,847,872)
Finance charges	-	-	-	(162,922)
Materials and bulk purchases	-	-	-	(78,512,656)
Other expenditure	-	-	-	(46,304,770)
Total expenditure	**-**	**-**	**-**	**(341,982,551)**
Total revenue (excluding capital transfers and contributions)	-	-	-	223,838,279
Total expenditure	-	-	-	(341,982,551)
Surplus/(Deficit)				**(118,144,272)**
Transfers recognised - capital				36,959,459
Surplus/(Deficit)	-	-	-	(118,144,272)
Capital transfers and contributions	-	-	-	36,959,459
Surplus (Deficit) after capital transfers and contributions				**(81,184,813)**
Surplus (Deficit) after capital transfers and contributions	-	-	-	(81,184,813)
Surplus/(Deficit) for the year				**(81,184,813)**

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
	R	R	R	v
Capital expenditure and funds sources				
Total capital expenditure				7,501,591
Sources of capital funds				
Transfers recognised - capital				-
Public contributions and donations				600,000
Borrowing				3,076,000
Internally generated funds				14,288,000
Transfers recognised - capital				1,721,000
Transfers recognised - capital				10,000,000
Transfers recognised - capital				995,000
Transfers recognised - capital				-
Total sources of capital funds				**30,680,000**
Cash flows				
Net cash from (used) operating				22,862,045
Net cash from (used) investing				(24,869,378)
Net cash from (used) financing				(179,930)
Net increase/(decrease) in cash and cash equivalents				**(2,187,263)**
Cash and cash equivalents at the beginning of the year				3,099,828
Net increase / (decrease) in cash and cash equivalents	-	-	-	(2,187,263)
Cash and cash equivalents at the beginning of the year	-	-	-	3,099,828
Cash and cash equivalents at year end				**912,565**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An assessment of whether there is an indication of possible i mpairment is done at each reporting period date. Where the carrying amount pof an asset is greater than the estimated recoverable amount (or recoverable service amount), it is the written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance. The municipality does not hold any assets with primary objective to generate a commercial return. Therefore, the municipality has asssessed all assets as being non cash generating and has assessed impairment based on GRAP 21 Impairment of non-cahs generating assets.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 3.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.3 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item		**Average useful life**
Land	Straight line	None
Furniture and fixtures	Straight line	1-10 years
Motor vehicles	Straight line	7-10 years
Office equipment	Straight line	3-5 years
Computer software	Straight line	3-5 years
Electricity	Straight line	3-100 years
Roads	Straight line	5-100year
Water and sanitation	Straight line	10-100years
Landfill Sites	Straight line	25years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Accounting Policies

1.5 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

Accounting Policies

1.6 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.6 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.6 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Subsequent to initial recogniton , the leased assets are accounted for in accordance with the state accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the assets useful life or the lease term.
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce constant periodic rate on remaining balance of the liability.

Any contingent rents are expensed in the period which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

1.8 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Accounting Policies

1.10 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.10 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.11 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Accounting Policies

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.
Contingent assets and contingent liabilities are not recognised.
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument

Contingent assets and contingent liabilities are not recognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP ommmn Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

1.14 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

Accounting Policies

1.24 Budget information (continued)

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

	2017 R	2016 R

2. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	67,532,098	-	67,532,098	67,532,098	-	67,532,098
Buildings	317,262,439	(168,009,301)	149,253,138	316,890,018	(160,458,014)	156,432,004
Infrastructure	1,619,019,835	(912,803,658)	706,216,177	1,595,661,677	(882,245,607)	713,416,070
Other property, plant and equipment	18,165,389	(11,117,651)	7,047,738	15,574,027	(10,024,469)	5,549,558
Total	**2,021,979,761**	**(1,091,930,610)**	**930,049,151**	**1,995,657,820**	**(1,052,728,090)**	**942,929,730**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in progress	Disposals	Depreciation	Impairment reversal	Total
Land	67,532,098	-	-	-	-	-	67,532,09
Buildings	156,432,003	372,421	-	-	(7,551,287)	-	149,253,13
Infrastructure	713,416,070	39,536,773	(10,452,279)	(5,726,335)	(33,364,108)	2,806,057	706,216,17
Other property, plant and equipment	5,549,558	3,289,050	-	(697,689)	(1,644,368)	551,186	7,047,73
	942,929,729	**43,198,244**	**(10,452,279)**	**(6,424,024)**	**(42,559,763)**	**3,357,243**	**930,049,15**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Depreciation on Disposal	Total
Land	67,532,098	-	-	-	-	67,532,098
Buildings	158,691,973	5,590,949	-	(7,850,919)	-	156,432,003
Infrastructure	737,476,354	59,335,842	(911,848)	(45,231,752)	592,701	713,416,070
Other property, plant and equipment	7,898,323	190,553	(3,012,964)	(1,765,252)	2,238,898	5,549,558
	971,598,748	**65,117,344**	**(3,924,812)**	**(54,847,923)**	**2,831,599**	**942,929,729**

Notes to the Annual Financial Statements

	2017 R	2016 R

3. Employee benefit obligations

Defined benefit plan

Defined benefit plan

The plan is a post-employment medical benefit plan.
The post employment health care liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.
Post-retirement medical aid plan

General description
The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death in service or death in retirement, the surviving dependants may continue membership of the medical scheme.

Post retirement benefit plan

The municipalitys accrued unfounded liability at the 30 June 2016 is estimated at R7 055 000. The current service cost for the year ending 30 June 2017 is estimated at R6 716 000.

Financial Assumptions		
Discount rate	8.25%	
CPI (consumer price inflation)	6.43%	
Net effective discount rate	0.76%	
Medical Aid Contribution rate	7.43%	

The next salary increase was assumed to take place on 1 January 2018.

Demographic Assumptions		
Average retiremnent age	65	

The amounts recognised in the statement of financial position are as follows:

	2017 R	2016 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,055,000)	(6,363,000)
Present value of the defined benefit obligation-partly or wholly funded	(563,000)	(574,000)
Fair value of plan assets	(101,000)	(53,000)
Fair value of reimbursement rights	588,000	(563,000)
Acturial gain	415,000	498,000
	(6,716,000)	**(7,055,000)**

4. Inventories

	2017 R	2016 R
Water	30,404	22,139
Game	8,000	8,000
Stationery	54,848	49,719
	93,252	**79,858**

Water Inventory: The tariff of treated water tariff is R6.80 per KL as approved by bloemwater (water board)

Notes to the Annual Financial Statements

	2017 R	2016 R

5. Other Receivables from exchange transactions

Other receivables	4,153,666	1,513,681
Creditors with negative balances	28,898	35,125
Grants on debit	-	2,146,307
	4,182,564	**3,695,113**

6. Receivables from non-exchange transactions

Less: Allowance Impairments	(20,415,343)	(15,207,530)
Consumer debtors - Other (Specified)	23,290,659	21,535,889
	2,875,316	**6,328,359**

Consumers		
Current(0-30 days)	1,256,870	-
31-60 days	1,201,578	-
61-90 days	1,205,687	-
91-120 days	1,199,754	8,103,066
121-365 days	14,182,432	6,146,468
Less:Allowance for impairment	(19,365,328)	(14,158,045)
	(319,007)	**91,489**

Industrial/ Commercial		
Total	1,171,338	1,057,987
	(1,050,015)	(1,049,485)
	121,323	**8,502**

National and provincial government		
Current(0-30 days)	290,000	139,000
31-60 days	189,000	97,000
61 -90 days	168,000	97,000
91-120 days	2,426,000	1,699,000
121-365 days	-	4,196,368
	3,073,000	**6,228,368**

Total		
Current (0-30 days)	1,256,870	139,000
31-60 days	1,201,578	97,000
61-90 days	1,205,687	97,000
91-120 days	3,625,754	9,016,018
121-365 days	16,000,770	12,186,871
Less:Allowance for Impairment	(20,415,343)	(15,207,530)
	2,875,316	**6,328,359**

7. VAT receivable

VAT	17,735,380	11,545,485

Notes to the Annual Financial Statements

	2017 R	2016 R

8. Receivables from exchange transactions

Gross balances		
Electricity	6,539,560	3,463,323
Water	78,223,896	72,074,364
Sewerage	44,863,070	34,976,711
Refuse	32,386,631	25,151,234
Housing Rental	4,035,357	3,728,391
Sundry Debtors	1,856,400	1,677,008
	167,904,914	**141,071,031**
Less: Allowance for impairment		
Water	(66,731,582)	(62,341,356)
Sewerage	(40,584,857)	(34,393,432)
Refuse	(29,311,705)	(24,765,559)
Housing rental	(3,821,541)	(3,007,409)
Sundry Debtors	(418,165)	(304,753)
	(140,867,850)	**(124,812,509)**
Net balance		
Electricity	6,539,560	3,463,323
Water	11,492,314	9,733,008
Refuse	3,074,926	385,675
Housing rental	218,267	720,982
Sewerage	4,278,213	583,279
Sundry Debtors	1,438,235	1,372,255
	27,041,515	**16,258,522**
Included in above is receivables from exchange transactions		
Electricity	-	6,177,281
Water	71,876,712	64,249,447
Sewerage	44,476,774	34,976,711
Refuse	31,979,572	25,151,234
Sundry debtors	1,644,942	1,738,418
Housing rental	4,035,357	3,728,391
	154,013,357	**136,021,482**
Net balance	**154,013,357**	**136,021,482**
Electricity		
31 - 60 days	1,676,413	1,651,480
61 - 90 days	701,924	530,650
91 - 120 days	227,493	650,781
121 - 365 days	3,933,730	630,412
	6,539,560	**3,463,323**
Water		
Current (0 -30 days)	2,904,703	3,452,106
31 - 60 days	2,046,515	2,533,375
61 - 90 days	1,758,933	2,426,076
91 - 120 days	2,098,746	2,362,751
121 - 365 days	69,414,999	61,300,056
Less:Provisions for Impairments	(66,731,582)	(62,341,356)
	11,492,314	**9,733,008**

	2017 R	2016 R

8. Receivables from exchange transactions (continued)

Sewerage

Current (0 -30 days)	1,396,708	1,377,957
31 - 60 days	1,252,590	981,720
61 - 90 days	1,187,125	950,436
91 - 120 days	1,179,576	919,824
121 - 365 days	39,847,071	30,746,774
> 365 days	(40,584,857)	(34,393,432)
	4,278,213	**583,279**

Refuse

Current (0 -30 days)	1,011,302	901,031
31 - 60 days	906,829	709,414
61 - 90 days	859,717	687,097
91 - 120 days	852,148	666,733
121 - 365 days	28,756,635	22,186,959
> 365 days	(29,311,705)	(24,765,559)
	3,074,926	**385,675**

Housing rental

Current (0 -30 days)	54,778	48,572
31 - 60 days	43,597	41,411
61 - 90 days	40,753	38,818
91 - 120 days	41,018	39,088
121 - 365 days	3,859,661	3,560,502
> 365 days	(3,821,540)	(3,007,409)
	218,267	**720,982**

Sundry debtors included with trade receivable form exchange transactions

Current	-	2,769
31 - 60 days	9,607	2,865
61 - 90 days	9,607	2,983
91 - 120 days	9,607	2,956
121 - 365 days	531,759	1,665,435
Less:Allowance for Impairments	877,655	(304,753)
	1,438,235	**1,372,255**

Notes to the Annual Financial Statements

	2017 R	2016 R

8. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2017 R	2016 R
Consumers		
Current (0 -30 days)	6,346,485	4,879,295
31 - 60 days	4,901,657	4,558,493
61 - 90 days	4,441,831	4,421,851
91 - 120 days	4,745,254	4,188,165
121 - 365 days	147,474,138	120,012,193
	167,909,365	138,059,997
Less:Allowance for Impairment	(140,867,850)	(124,752,639)
	27,041,515	**13,307,358**

	2017 R	2016 R
Industrial/ commercial		
Current (0 -30 days)	257,436	115,909
31 - 60 days	122,813	100,366
61 - 90 days	112,610	98,729
91 - 120 days	201,699	94,664
121 - 365 days	2,840,563	2,299,670
	3,535,121	**2,709,338**

	2017 R	2016 R
National and provincial government		
Current (0 -30 days)	13,085	9,141
31 - 60 days	11,278	9,367
61 - 90 days	11,288	9,579
91 - 120 days	11,492	9,737
121 - 365 days	483,008	359,693
	530,151	**397,517**

	2017 R	2016 R
Total		
Current (0 -30 days)	6,603,921	5,004,345
31 - 60 days	5,037,549	4,668,226
61 - 90 days	4,565,729	4,431,430
91 - 120 days	150,797,709	4,292,566
121 - 365 days	904,457	122,671,556
	167,909,365	141,068,123
Less: Allowance for impairment	(140,867,850)	(64,678,036)
	27,041,515	**76,390,087**

	2017 R	2016 R
Less: Allowance for impairment		
31 - 60 days	-	(62,341,356)
61 - 90 days	-	(34,393,433)
91 - 120 days	-	(24,765,558)
121 - 365 days	-	(3,007,409)
> 365 days	(140,867,850)	(304,753)
	(140,867,850)	**(124,812,509)**

	2017 R	2016 R
Reconciliation of allowance for impairment		
Balance at beginning of the year	(124,812,509)	(72,547,027)
Contributions to allowance	(41,619,834)	(66,994,043)
Debt impairment written off against allowance	25,564,493	14,728,561
	(140,867,850)	**(124,812,509)**

Notes to the Annual Financial Statements

	2017 R	2016 R

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017 R	2016 R
Cash on hand	20,000	30,304
Bank balances	1,104,941	369,137
Short-term deposits	937,163	513,126
	2,062,104	**912,567**

Short term deposits

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

f		
62111778976	23,420	1,590
62422631821	117,428	2,235
62422629280	252,426	371
62422630005	10,115	1,910
74433523997	8,206	7,345
62422632423	424,510	415,233
62422630857	4,314	4,271
62422626806	4,643	957
74366785268	90,790	77,952
62366782003	1,311	1,261
	937,163	**513,125**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
FNB Business cheque account	936,972	83,756	100,780	893,682	62,974	85,828
Standardbank Business Cheque account 04 191 730 8	98,936	60,779	15,944	98,936	60,779	15,944
ABSA BUSINESS Cheque account 246 014 2140	10,035	10,130	11,746	10,035	10,130	11,746
Post Bank Current Account 00088133677	102,288	235,254	157,326	102,288	235,254	74,720
Total	**1,148,231**	**389,919**	**285,796**	**1,104,941**	**369,137**	**188,238**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure grant	578,435	1,060,978
DWA National Transfers programme	3,492,847	3,492,847
Water operating Grant-DWA	13,108,185	1,309,384
	17,179,467	**5,863,209**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

	2017 R	2016 R

10. Unspent conditional grants and receipts (continued)

These amounts are deposited in call accounts for future use.

11. Long-term liabilities

	2017 R	2016 R
Long term liabilities		
Mangaung 3 Road and public area lighting projects	62,130	69,896
Mangaung 4 Replacement of domestic/commercial meters	1	1
Mangaung 5 Upgrading low voltage network	88,203	132,891
Mangaung 6 Kopanong ext. upgrade and improvement of low voltage network	107,127	122,431
Mangaung 7 Kopanong electrification	126,702	144,803
Mangaung 8 Kopanong High mast lighting	249,730	261,364
Mangaung 9 Kopanong high mast lights	168,114	192,130
Mangaung 12 Improvement of low voltage network	467,352	525,771
	1,269,359	**1,449,287**
Total other financial liabilities	**1,269,359**	**1,449,287**
Non-current liabilities		
At amortised cost	1,089,431	1,269,359
Current liabilities		
At amortised cost	179,928	179,928

	2017	2016
	R	R

12. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Rehabilitation of landfills sites	9,157,540	330,266	9,487,806
Provisions for long service bonus	6,871,203	481,797	7,353,000
	16,028,743	**812,063**	**16,840,806**

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Rehabilitation of landfills sites	8,328,821	828,719	9,157,540
Provisions for long service bonus	6,365,999	505,204	6,871,203
	14,694,820	**1,333,923**	**16,028,743**

	2017	2016
Non-current liabilities	16,359,009	15,523,535
Current liabilities	481,797	505,208
	16,840,806	**16,028,743**

Landfill site disclosure

Jagersfontein
The landfill sites of Jagersfontein is not licensed.The record of decision was not approved due to high water ground table. The municipality is busy with identifying the alternative site and to change the current landfill sites to a transfer station that does not need to be licensed

Fauresmith
The landfill sites of fauresmith is not licensed. The municipality is busy constructing a new transfer station which does not required licensing. Once the project is completed the old site will be closed and rehabilitated.

	2017	2016
	R	R

12. Provisions (continued)

Edenburg
The landfill sites of Edendburg is not licensed.The transfer station is completed and currently completing the landfill site in Reddersburg where the waste will be transferred

Reconciliation of accrued liability
Notes
(i) These projections assume that the Municipality's health care arrangements and subsidy policy will remain as outlined in Section 3, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the Municipality towards prefunding its liability via an off balance sheet vehicle.
(ii)Contributions or benefits paid refer to medical scheme contributions made by the Municipality with respect to its subsidy of current continuation members.

Financial Assumptions .	
Discount rate	8.80%
CPI (consumer price inflation)	7%
Net effective discount rate	0.74%
Normal salary increase rate	8%

Discount Rate: GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Normal salary inflation rate: We have derived the underlying future rate of consumer price index (CPI Inflation) from the relationship between the (yeild curve based) inflation linked bond rate for each relevant time period. our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. the salaries used in the valuation include an assumed increase on 01 July 2017 of the 6.79%. As at the time previous year's year rate of 6.79% is still relevantin this year's valuation.
the next salary increase was assumed to take place on 1 January 2018.

Demographic Assumptions	
Average retirement age	65
New members joining since previous valuation	13
Employees leaving service since the previous valuation	32
Mortality during employment	SA 85-90

Withdrawal from service (sample annual rates)

Age band	**Females**	**Males**
20-24	24%	16%
25-29	18%	12%
30-34	15%	10%
35-39	10%	8%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60	0%	0%

Demographic assumptions are required to estimate the changing profile of current employees who are eligible for long service leave award benefits.
Pre-retirement Mortality: SA85?90 ultimate table, adjusted for female lives.Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below. Average Retirement Age: The normal retirement age of employees is 65. It has been assumed that in?service members will retire at age 60, which then implicitly allows for expected rates of early and ill-health retirement.

Environmental rehabilitation provision

Notes to the Annual Financial Statements

	2017 R	2016 R

12. Provisions (continued)

The rehabilitation requirement as per the minimum Requirement for waste disposal by landfill (DWAF, 1998) creates an oligation for the municipality for future expenditure which is provided for.
The provision was determined by an independant expert for the rehabilitation cost in 2016 and then approximated the expected future cash flows using reasonable estimation techninques. The discount rate for all the all the landfill sites is based on a CPA rate that matures as close as posiible to the future date of the rehabilitation, the rate is 9.95% for the circumstances.

13. Payables from exchange transactions

	2017 R	2016 R
Trade payables	221,590,361	180,681,911
Payments received in advance	10,537,621	9,568,937
Unallocated Deposits	3,008,101	401,136
Accrued leave pay	6,784,322	7,342,402
Accrued bonus	2,385,345	2,175,789
Deposits received	14,665	14,665
Salaries payables	59,130,474	36,176,724
Grants Spent DAW	-	2,146,326
	303,450,889	**238,507,890**

14. Consumer deposits

	2017 R	2016 R
Water and electricity	3,129,473	3,102,602

15. Revenue

	2017 R	2016 R
Sale of goods	374,024	669,882
Service charges	105,424,079	108,396,630
Rental of facilities and equipment	364,459	968,848
Fees earned	3,966	3,785
Rental income	805,413	136,704
Sundry income	4,362,280	3,377,277
Interest received - investment	12,990,602	9,636,481
Property rates	16,134,160	13,952,421
Government grants & subsidies	105,365,742	115,329,459
Fines, Penalties and Forfeits	34,048	124,534
	245,858,773	**252,596,021**

	2017 R	2016 R
The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	374,024	669,882
Service charges	105,424,079	108,396,630
Rental of facilities and equipment	364,459	968,848
Fees earned	3,966	3,785
Rental income	805,413	136,704
Sundry Income	4,362,280	3,377,277
Interest received - investment	12,990,602	9,636,481
	124,324,823	**123,189,607**

Notes to the Annual Financial Statements

	2017 R	2016 R

15. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16,134,160	13,952,421
Transfer revenue		
Government grants & subsidies	105,365,742	115,329,459
Fines, Penalties and Forfeits	34,048	124,534
	121,533,950	**129,406,414**

16. Service charges

Sale of electricity	60,891,693	54,678,682
Sale of water	23,292,670	34,480,345
Sewerage and sanitation charges	12,286,690	11,206,791
Refuse removal	8,953,026	8,030,812
	105,424,079	**108,396,630**

17. Other revenue

Fees earned	3,966	3,785
Rental income - third party	805,413	136,704
Sundry Income	4,362,280	3,377,277
	5,171,659	**3,517,766**

18. Investment revenue

Interest revenue		
Bank	1,041,039	730,346
Interest received - other	11,949,563	8,906,135
	12,990,602	**9,636,481**
	-	-
	12,990,602	9,636,481

Notes to the Annual Financial Statements

	2017 R	2016 R

19. Property rates

Rates received

Residential	13,462,471	11,905,001
Commercial	3,639,832	2,839,560
State	14,521,901	13,627,252
Small holdings and farms	9,866,202	9,090,012
Less: Income forgone	(25,356,246)	(23,509,404)
	16,134,160	**13,952,421**

Valuations

Church	48,074,000	48,074,000
Commercial	202,432,750	202,432,750
Empty site, no tariff and municipal property	317,002,529	317,002,529
Hospital	6,800,000	6,800,000
Residential	822,484,570	822,484,570
School	87,709,000	87,709,000
Small holdings and farms	8,563,296,270	8,563,296,270
Govermenrt	189,051,100	189,051,100
Less: Income forgone	(6,307,420)	(6,307,420)
	0,230,542,799	**0,230,542,799**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The valuation was extended for one year.

Notes to the Annual Financial Statements

	2017 R	2016 R

20. Government grants and subsidies

Operating grants		
Equitable share	69,821,362	78,370,000
Capital grants		
Government grant	35,544,380	36,959,459
	69,821,362	78,370,000
	35,544,380	36,959,459
	105,365,742	**115,329,459**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure grant

Balance unspent at beginning of year	1,060,978	1,763,071
Current-year receipts	19,977,000	21,054,093
Conditions met - transferred to revenue	(20,310,565)	(21,756,186)
Roll Over not approved	(148,978)	-
	578,435	**1,060,978**

Conditions still to be met - remain liabilities (see note 10).

Municipal systems Improvement

Balance unspent at beginning of year	-	57,255
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(987,255)
	-	**-**

Conditions still to be met - remain liabilities (see note 10)

DWA National Transfers programme

Balance unspent at beginning of year	3,492,847	3,492,847

Conditions still to be met - remain liabilities (see note 10).

Expanded Public Works programme

Current-year receipts	1,155,000	1,363,000
Conditions met - transferred to revenue	(1,155,000)	(1,363,000)
	-	**-**

Arts and Craft grant (Dept. of Sports and Culture)

Bulk water DWA

Current-year receipts	-	5,960,752
Conditions met - transferred to revenue	-	(5,960,752)
	-	**-**

Department of COGTA (In Kind)

Notes to the Annual Financial Statements

	2017 R	2016 R

20. Government grants and subsidies (continued)

Current-year receipts	-	3,000,000
Conditions met - transferred to revenue	-	(3,000,000)
	-	-

Water operating grant

Balance unspent at beginning of year	1,309,384	1,309,384
Roll over not approved.	(1,309,384)	-
	-	**1,309,384**

Conditions still to be met - remain liabilities (see note 10).

Sport facilities grant (National Lottery)

Commmonage Grant (DBSA)

Intergrated Electrifiction Programme

Current-year receipts	5,000,000	1,600,000
Conditions met - transferred to revenue	(5,000,000)	(1,600,000)
	-	-

Financial management grant

Conditions met - transferred to revenue	1,625,000	1,600,000
Other	(1,625,000)	(1,600,000)
	-	-

SETA Educational Grant

Current-year receipts	-	156,877
Conditions met - transferred to revenue	-	(156,877)
	-	-

Provincial DME(Centlec Grant expenditure)

Current-year receipts	-	1,294,737
Conditions met - transferred to revenue	-	(1,294,737)
	-	-

	2017 R	2016 R

21. Employee related costs

Basic	68,335,912	63,489,291
Bonus	5,959,651	5,414,230
UIF	634,252	598,746
SDL	865,860	807,848
Overtime payments	2,039,440	1,699,584
Car allowance	4,350,365	4,707,621
Housing benefits and allowances	212,346	210,767
Holiday Bonus	209,556	10,716
Industrial Council Contributions	78,811	39,904
Medical Aid Contribultions	6,099,981	6,297,516
Pension Fund Contributions	11,666,036	11,564,048
Cellphone Allowance	1,058,798	596,507
Other Allowance	1,229,733	1,281,181
	102,740,741	**96,717,959**

Remuneration of municipal manager

Annual Remuneration	861,125	748,941
Car Allowance	180,000	62,412
Bonuses	71,375	-
Contributions to UIF, Medical and Pension Funds	226,211	180,000
Annual Leave	-	36,464
Other	-	204,566
	1,338,711	**1,232,383**

Remuneration of chief finance officer

Annual Remuneration	561,276	625,668
Car Allowance	88,200	52,139
Bonuses and Leave	313,681	29,627
Contributions to UIF, Medical and Pension Funds	124,530	96,000
Other	-	21,600
Other	-	176,293
	1,087,687	**1,001,327**

Remuneration of Head of Technical Services

Annual Remuneration	715,998	629,260
Car Allowance	120,000	55,536
Bonuses	59,408	28,488
Contributions to UIF, Medical and Pension Funds	150,017	120,000
Other	-	132,631
	1,045,423	**965,915**

Remuneration of Head of Corporate services

Annual Remuneration	755,090	666,437
Car Allowance	72,000	55,536
Bonuses	62,506	28,488
Contributions to UIF, Medical and Pension Funds	157,651	72,000
Other	-	140,357
	1,047,247	**962,818**

Remuneration of Head of Community services

Notes to the Annual Financial Statements

	2017 R	2016 R

21. Employee related costs (continued)

Annual Remuneration	579,019	543,377
Car Allowance	176,000	45,281
Performance Bonuses	134,230	28,488
Contributions to UIF, Medical and Pension Funds	157,002	180,000
Other	-	12,000
Other	-	153,673
	1,046,251	**962,819**

22. Remuneration of councillors

Mayor	609,090	609,000
Speaker	475,484	475,484
Chief Whip	280,331	280,331
Councillors	2,162,704	2,489,633
	3,527,609	**3,854,448**

Mayor and Speaker are full time members. They are provided with an office, administrative and sectreterial support at the cost of the council.

Chief Whip amd councillors are part-time members. They are not provided with an office. Theyare however allowed to utilise the saellite offices (units) for administrative duties ralated to their duties.

23. Administrative expenditure

Administration and management fees - third party	2,200,654	2,122,552

24. Depreciation and amortisation

Property, plant and equipment	42,559,762	54,847,872

25. Finance costs

Non-current borrowings	324,857	162,922

26. Debt impairment

Contributions to debt impairment provision	41,619,834	61,581,833

27. Bulk purchases

Electricity	46,682,663	46,385,805
Water	39,670,086	32,126,851
	86,352,749	**78,512,656**

28. Contracted services

Other Contractors	-	648,566

Notes to the Annual Financial Statements

	2017 R	2016 R

29. General expenses

	2017 R	2016 R
Accounting fees	106,400	224,123
Advertising	125,447	102,551
Auditors remuneration	3,178,877	3,274,382
Bank charges	340,802	338,966
Cleaning	37,295	28,322
Commission paid	90,306	(88,782)
Consulting and professional fees	1,648,829	510,567
Entertainment	77,442	42,335
Insurance	429,410	500,044
Community development and training	5,300	18,667
Conferences and seminars	336,421	366,119
Medical expenses	-	5,725
Fuel and oil	1,332,741	1,618,084
Postage and stamps	2,547	3,757
Printing and stationery	771,101	494,490
Protective clothing	52,154	98,210
Royalties and license fees	142,962	107,089
Software expenses	986,500	677,622
Subscriptions and membership fees	515,274	574,778
Telephone and fax	977,309	1,226,683
Training	126,307	806,090
Subsistence and Travelling	1,320,023	1,654,240
Assets write off	3,066,782	645,635
Departmental Electricity	4,916,164	5,132,143
Valuation cost and unbundling of assets	319,280	923,537
Farming Land	-	49
Performance Management System	3,346	38,240
Ward Committees	225,200	298,200
Other expenses	255,666	385,372
	21,389,885	**20,007,238**

30. Auditors' remuneration

	2017 R	2016 R
Audit Fees	3,178,877	3,274,382

31. Net cash flow from operating activities

	2017 R	2016 R
Deficit	(82,592,142)	(81,691,755)
Adjustments for:		
Depreciation and amortisation	42,559,762	54,948,338
Debt impairment	41,619,834	61,581,833
Movements in retirement benefit assets and liabilities	(339,000)	692,000
Movements in provisions	812,063	1,333,923
Changes in working capital:		
Inventories	(13,394)	96,391
Other Receivables from exchange transactions	(487,451)	(2,580,856)
Consumer debtors	(54,052,046)	(66,087,876)
Other receivables from non-exchange transactions	3,453,043	(4,562,350)
Payables from exchange transactions	79,225,125	65,732,652
VAT	(6,189,895)	(5,879,108)
Unspent conditional grants and receipts	11,316,258	(759,348)
Consumer deposits	26,871	38,201
	35,339,028	**22,862,045**

	2017 R	2016 R

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	39,234,240	20,485,753
• Other financial assets	1,707,079	3,927,779
	40,941,319	**24,413,532**

Total capital commitments		
Already contracted for but not provided for	40,941,319	24,413,532

Operating leases - as lessee (expense)

Kopanong Local Municipality entered into a lease contract with Xhariep District Municipality for rental of office builing. Operating lease agreement is for a period of 3 years. Rent payment on Straight lines basis. Rent escalates by 15% per year, operating lease ends 31 July 2016.

PMU Building	**Total**
- within one year	8,800

Operating lease agreement is for a period of 3year. Rent payment on Straight Line baises. Rent escalates by 10% per year, operating lease period ends 31 August 2017.

Operating leases - Printers

Minimum lease payments due		
- within one year	256,834	342,445
- in second to fifth year inclusive	-	256,834
	256,834	**599,279**

Kopanong Local Municipality entered into a lease agreement with Aenti 220 (Pty) for rental of printers. Operating lease agreement is for a period of 2 years. Rent payment on Straight Line baises. Rent escalates by 15% per year, operating lease period ends 30 June 2016

Notes to the Annual Financial Statements

	2017 R	2016 R

33. Contingencies

Litigation is in the process against the municipality relating to a dispute and artribution with former employees who alleges that the municipality unlawfully dismissed. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. However, it cannot be determined at this time when the disputes will be resolved or exactly how much the claims and damages the municipality will require to make as it is not practical to do so. The estimated legal costs amount to R 540 000. The settlement amounting to R457 085.00 still to be settled by the municipality. There is currently no posisibility of reimbursement.

35.1 Landfill sites

The municipality makes use of unregistered landfill sites, which could incur potential fines and penalties, the value and likelihood cannot be estimated reliably

The municipality managed three landfill site without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community. There is currently no possibility of reimbursement.

35.2 Litigations

	2017	2016
	-	-
Samwu National Provident Fund	50,000	1,400,000
TS Construction	-	1,000,000
N. Haya	-	60,000
TS Mantshiyane	120,000	120,000
MY.Makhaba vs Lebo Moletsane KLM	68,400	68,400
HC Mothupi and SAMWU HC Mothupi	67,000	67,000
Reid and others	100,000	100,000
	405,400	**2,815,400**

34. Related parties

Relationships
Close family member of key management Name

Municipal service and property rates

No special tariff dispensation exist for councillors or officials who are required to pay for services in on the same terms and condition available for all other consumers

Related Party Finance

Effectively from the 1 July 2004, Loans and financial assistance by the municipality to councillors and officials are not permitted

35. Prior period errors

The following errors occurred in relation to prior financial year which necessitated correction in the current financial year. the errors were corrected retrospectively in terms of GRAP 3: Accounting policies in accounting Estimates and Errors.

Correction of accumulated depreciation	**Amount**	**Total**
Increase in accumulated depreciation buildings	(448,169)	(448,169)
Decrease in Accumulated depreciation Infrastructure	5,212,192	5,212,192
Decrease in accumulated depreiation other PPE	295,272	295,272
Increase in Accumulated surplus	(5,059,295)	(5,059,295)

Notes to the Annual Financial Statements

Figures in Rand

35. Prior period errors (continued)

Reversal of other PPE Disposal	**Amount**	**Total**
Increase in other PPE	1,062,081	1,062,081
Increase in Accumulated depreciation other PPE	(784,037)	(784,037)
Profit and loss on disposal of assets	(278,044)	(278,044)

Property plant and equipment	Amount	Total
Increase in depreciation Buildings	46,851	46,851
Increase in depreciation	27,476	27,476
Decrease in deprecaition other PPE	195,867	195,867
Increase in accumulated depreciation Buildings	(46,851)	(46,851)
Increase Accumulated depreciation Infrastructure Assets	(27,476)	(27,476)
Decrease accumulated depreciation other assets	(195,867)	(195,867)
	-	-

Work in progress	**Amount**	**Total**
Decrease in VAT	7,476,956	7,476,956
Decrease WIP	(7,476,956)	(7,476,956)
Grant income incorectly capitilised	-	-
	-	-

Correction of Infrasturcture opening balances	**Amount**	**Total**
Decrease in payables	823,564	823,564
Increase payabales	(2,472,562)	(2,472,562)
	(1,648,998)	**(1,648,998)**

Correction of opening balances	**Amount**	**Total**
Increase in buildings	854,911	854,911
Decrease in Infrastructure	(27,430,235)	(27,430,235)
Increase in other PPE	31,042	31,042
Increase in Work in Progress	17,947,170	17,947,170
Decrease in Accumulated Surplus	8,597,112	8,597,112
	-	-

36. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Notes to the Annual Financial Statements

36. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

37. Going concern

We draw attention to the fact that at June 30, 2017, the municipality indicates that the municipality incurred a deficit of R83 741 057 (2016 R 81 184 813) and that the municipality's current liabilities exceeded its current assets.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The Municipality owes salaries payables amounting to R 59 130 474 (2015 R36 176 724).

The Municipality is still negotiating with the suppliers in terms of the outstanding payments by arranging payments terms and dates.

Strict measures have been put in place to implement credit control policy to the people who can afford to pay the Municipality. These people are visited after hours and make payments arrangements.

A list for people who are working for Government Institutions was compiled and submitted to the Provincial Treasury to assist locate where they are working and these officials were visited and payments arrangements were made with them.

A water management system has been implemented to correct inaccurate water readings and has led to the billing to increase as compared to the previous financial years where not all water meters were not read.

Technical department has developed business plans for Five (5) Towns and submitted them to COGTA to provide the financial assistance through the Municipal Infrastructure Grant to address the high percentage of water losses to reduce the high water bill from Bloemwater and also for the effective implementation of Credit Control Policy to cut water for the people who are not paying their accounts.

Water restriction programme has been implemented to reduce the high volume of usage and water loss. Bloemwater has also been engaged not to fill up the Reservoir to the bream avoid water overflows but to refill the Resevoirs up to atleast 80% to reduce water accounts.

Water awareness campaigns will also be made to all KLM Towns.

Flat water rate charge of 10 kl per month has been implemented to areas where there are no water meters or broken water meters.

Flat water rate charge of R 50,00 for the people who are not using the Municipal water will be implemented as the report has been tabled to Council for approval.

Notes to the Annual Financial Statements

Figures in Rand

37. Going concern (continued)

A lists for all Towns of people who are not paying accounts are prepared and will be submitted to Centlec to deduct 50% from every electricity purchases to address the arrear debts or cut electricity to enforce people to come and pay or make payments arrangements for their accounts.

Workshops have been conducted to all the Towns of KLM to come and register as Indigents for those that who are not working or receive little income.

Reports will be also be prepared to monitor and follow up on all payments arrangements made and not honoured to cut electricity to enforce payment.

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38. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- None (to be uodated should an event occur)

39. Unauthorised expenditure

Opening Balance	337,856,369	242,303,370
Current Year	62,409,814	95,552,999
	400,266,183	**337,856,369**

Incidents of unathorised expenditure	**Amount**	**Total**
Employee related services	2,286,994	2,286,994
Impairment	26,492,983	26,492,983
Interest paid	11,417,471	11,417,471
Bulk Purchases	22,212,366	22,212,366
	62,409,814	**62,409,814**

40. Fruitless and wasteful expenditure

Opening Balance	70,863,115	51,707,993
Current Year - Exculding interest and penalties	24,185,847	19,155,122
	95,048,962	**70,863,115**

40. Fruitless and wasteful expenditure (continued)

Incidents of fruitless & Wasteful expenditue	Total
Fines and penalties	50,500
Interest on late accounts	23,535,348
Legal cost	600,000
	24,185,848

41. Irregular expenditure

Opening balance	233,173,400	213,962,479
Add: Irregular Expenditure - current year	3,995,971	19,210,921
	237,169,371	**233,173,400**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Incident 2		-
Bid adjudication committee was not composed of a minimum of 4 directors in accordance to scm Regulation 29.		866,897
Supply Chain processes were not followed in full		3,129,074
		3,995,971

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,420,642	55,660
Current year subscription / fee	972,484	1,364,982
Amount paid - current year	(1,420,642)	-
	972,484	**1,420,642**

Audit fees

Opening balance	3,282,373	2,371,017
Current year subscription / fee	2,824,066	3,895,951
Amount paid - current year	(2,491,973)	(2,984,595)
	3,614,466	**3,282,373**

PAYE and UIF

Opening balance	5,232,537	7,404,653
Current year subscription / fee	14,652,657	11,205,646
Amount paid - current year	(173,524)	552,117
Amount paid - previous years	(5,232,537)	(13,929,879)
	14,479,133	**5,232,537**

Pension and Medical Aid Deductions

Opening balance	29,657,332	17,669,758
Current year subscription / fee	31,522,475	27,632,645
Amount paid - current year	-	(4,830,806)
Amount paid - previous years	(20,881,834)	(10,814,265)
	40,297,973	**29,657,332**

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	17,735,380	11,545,485

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2017:

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor PD Basholo	365	-	365
Councillor SA Sola	1,674	7,205	8,879
Councillor TX Matwa	1,553	26,837	28,390
Councillor KE Dlomo	504	6,903	7,407
Councillor H Shebe	432	-	432
Councillor TA Phafudi	268	2,887	3,155
Councillor MJ Mjika	984	10,231	11,215
Councillor MJ Moitse	2,380	83,389	85,769
Councillor MJ Moeketsi	9,955	88,296	98,251
Councillor MJ Phoba	832	25,910	26,742
Councillor LM May	512	-	512
Councillor NM Jan	1,612	67,965	69,577
Councillor L Makoa	338	-	338
	21,409	**319,623**	**341,032**

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Incidents	Total
Sole supplier	365,727
Impracical or impossible	608,674
	974,401

44. Distribution losses

Distribution losses	**Distribution losses**	**Total**
48.1 Distribution losses (Water)	-	-
Number of users	13,386	13,386
Units bought	4,354,269	4,354,269
Units sold	2,203,546	2,203,546
Free basic service (Only Indigents)	163,524	163,524
Units lost on distribution	1,987,199	1,987,199
Units lost in distribution as percentage	46	46
Amount distribution lossess R 6.80	13,512,953	13,512,953
The water distribution losses were calculated on the cost price of R	-	-
48.2 Distribution losses (Electricity)	-	-
Purchased Units	44,611,499	44,611,499
Prepaid Sale	21,504,459	21,504,459
Venus Sales	15,570,632	15,570,632
kWh Losses	7,536,408	7,536,408
Distribution losses R	8,278,827	8,278,827
Avg C/kWh	17	17
	-	**-**

45. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget is material.

Employee Cost

The overspending on employee related cost is due to settlement of court new appointments and social contributions.

Debt Impairment

The payment rate is low due to the high unemployment rate currently we have an unemployment rate of 60% in the Xhariep District. The collection is very low hence the provision over the 90 days.

Interest paid

Due to the low payment rate of consumers the Municipality is not able to pay all of its creditors and the interest is increasing monthly. Main contributer is the Bloemwater interest.

Bulk Purchases

Currently the municipal water losses are at 52% the high water losses are causing our bulk purchase to overspend.

Changes from the approved budget to the adjustement final budget

The changes between the approved and final adjustement budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.